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MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 1, 2018/2019 SESSION

BAC1614 – FUNDAMENTALS OF FINANCIAL ACCOUNTING

(All Section / Groups)

19 OCTOBER 2018
9.00 AM. - 12.00 PM.
(3 Hours)

INSTRUCTIONS TO STUDENT

1. This question paper consists of 8 pages excluding cover page with 4 Questions only.
2. Attempt ALL questions. The distribution of the marks for each question is given.
3. Please write all your answers in the Answer Booklet provided

QUESTION 1

The following trial balance was extracted from the books of Lava Sdn. Bhd. as at 30 September 2017.

	Debit RM	Credit RM
Land and buildings	400,000	
Inventory as at 1 October 2016	30,000	
Copyrights	100,000	
4% Fixed deposit	200,000	
Motor vehicles	620,000	
Equipment	160,000	
Accumulated depreciation : Motor vehicles		186,000
Receivables and Payable	65,300	57,500
Cash	25,000	
Overdraft bank		6,000
Purchases and sales	315,200	550,800
Return inwards and outwards	12,300	13,200
Rental costs on office space and equipment	37,400	
7% Long term loan		300,000
Commission received		2,800
Carriage	15,800	
Discounts	2,600	3,700
Advertising and media costs	3,900	
Light and heat	5,100	
Insurance	16,000	
Telephone and internet	2,700	
Rates and water charges	6,300	
Wages and salaries	102,000	
Interest on loan	5,000	
Bad debts	9,400	
Dividends	126,000	
Retained earnings		340,000
Share capital -Ordinary		800,000
	2,260,000	2,260,000

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Additional Information:

1. The closing inventory as at 30 September 2017 was valued at RM31,500.
2. Included in the insurance costs above is RM9,600 which relates to the year ended 31 December 2017.
3. Telephone and internet charges are consistent at RM270 per month. The figure included in the trial balance above does not include telephone and internet charges for August and September 2017.
4. 40% of carriage relates to carriage inwards and the remainder relates to carriage outwards.
5. Additional bad debts of RM1,600 are to be written off.
6. Depreciation is to be provided as follows:

Motor vehicles 10% Straight line method

Equipment 15% Reducing balance method

7. When reviewing the purchase account, it was noted that RM1,200 for motor repairs was mistakenly included in the purchase account.
8. The bank had advised the company that 6% of interest yet to be charged on the overdraft bank.
9. The balance of interest on loan has not been paid for the year and interest on fixed deposit has not been received for the year.

Required:

- a) Prepare the statement of profit or loss for the year ended 30 September 2017.
(14 marks)
- b) Prepare the retained earnings statement for the year ended 30 September 2017.
(2marks)
- c) Prepare the statement of financial position as at 30 September 2017.
(9 marks)

Total 25 marks

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QUESTION 2

Part A

On October 1, Kedai Basikal Ali Sdn. Bhd. had an inventory of 20 ten speed bicycles at a cost of RM200 each. During the month of October, the following transactions occurred.

Oct. 4	Purchased 25 bicycles at a cost of RM200 each from Kuhn Bicycle Company, terms 2/10, n/30.
6	Sold 15 bicycles to Team America for RM300 each, terms 2/10, n/30.
7	Received credit from Kuhn Bicycle Company for the return of 2 defective bicycles.
13	Issued a credit memo to Team America for the return of a defective bicycle.
14	Paid Kuhn Bicycle Company in full, less discount.

Required

Prepare the journal entries to record the transactions assuming the company uses a perpetual inventory system.

(7 marks)

Part B

Bintang Sdn. Bhd. sells many products. "Glitters" is one of its popular items. Below is an analysis of the inventory purchases and sales of "Glitters" for the month of March.

		Purchases		Sales	
		Units	Total Cost	Units	Total
Sales					
3/1	Beginning inventory	100	RM4,000		
3/3	Purchase	60	RM3,000		
3/4	Sales			70	RM5,600
3/10	Purchase	200	RM11,000		
3/16	Sales			80	RM7,200
3/19	Sales			60	RM5,400
3/30	Purchase	40	RM2,400		

Required

- Under FIFO assumption, calculate the amount charged to cost of goods sold and inventory on hand on March 31 using the perpetual inventory system. (6 marks)
- Under Average cost method, calculate the amount charged to cost of goods sold and inventory on hand on March 31 using the periodic inventory system. (6 marks)

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Part C

The following is a summary from the cash book of Delish Enterprise for May 2018:

Cash Book					
Date	Item	RM	Date	Item	RM
31-May	Balance b/d	2,814	31-May	Payments	31,040
	Receipts	30,146		Balance c/d	1,920
		<u>32,960</u>			<u>32,960</u>

Upon investigation, the following were discovered:

1. Bank charges of RM70 shown on the bank statement have not been entered in the cash book.
2. A cheque drawn for RM94 has been entered in error as a receipt in the cash book.
3. An error has occurred in the opening balance in the cash book where the opening balance should have been carried down as RM2,940.
4. Three cheques paid to suppliers for RM428, RM740 and RM60 have not yet been presented to the bank.
5. Credit transfer of RM600 from Marvin was entered in the bank statement but not in the cash book.
6. A cheque received from Moonlight Berhad for RM606 and credited in the bank statement on 15 May 2018 has now been dishonoured and debited in the bank statement on 19 May 2018. The only entry in the cash book for this cheque was its receipt on 12 May 2018.
7. The last page of the cash book shows a deposit of RM3,084 which has not yet been credited to the account by the bank.
8. The bank has debited a cheque for RM144 in error to Delish's account.
9. A payment of RM210 of Delish's loan repayment has been recorded in the bank statement but is not updated in the cash book.
10. The bank statement shows an overdrawn balance of RM428 for the month of May 2018.

Required:

Prepare the bank reconciliation statement at 31 May 2018

(6 marks)

Total 25 marks

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QUESTION 3

Part A

a) Briefly explain the Allowance for Doubtful Accounts and how it is reported in the statement of financial position at the end of the accounting period? (2 marks)

b) List TWO (2) weakness of direct write-off method in reporting bad debt expense. (2 marks)

c) Presented below is an aging schedule for Sherry Sdn. Bhd. :

<u>Customer</u>	<u>Total</u>	<u>Not Yet Due</u>	<u>Number of Days Past Due</u>			
			<u>1-30</u>	<u>31-60</u>	<u>61-90</u>	<u>Over 90</u>
Arief	RM 30,800		RM13,900	RM16,900		
Bobby	40,400	RM 40,400				
Chris	61,900	17,200	7,700		RM37,000	
Debby	35,700					RM35,700
Others	137,700	96,600	19,200	15,700		6,200
Total	RM306,500	RM154,200	RM40,800	RM32,600	RM37,000	RM41,900
Estimated percentage uncollectible			2%	6%	14%	27%
Total estimated bad debts	RM 46,064	RM 3,084	RM 2,448	RM 4,564	RM 9,990	RM25,978

As at December 31, 2018, the unadjusted balance in Allowance for Doubtful Accounts is a credit of RM10,150.

Required:

i) Journalize and post the adjusting entry for bad debts as at December 31, 2018. (5 marks)

ii) Journalize and post to the allowance account the following events and transactions in the year 2019.

a. February 1, a RM2,350 customer balance originating in 2018 is judged uncollectible. (2 marks)

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b. May 1, a cheque for RM2,350 is received from the customer whose account was written off as uncollectible on February 1.

(4 marks)

Part B

On January 1, 2017, Buby Manufacturing Sdn. Bhd. purchased the following two machines for use in its production process.

Machine A:

The cash price of this machine was RM37,800. Related expenditures included: sales tax RM3,300, shipping costs RM170, insurance during shipping RM60, installation and testing costs RM100, and RM200 of oil and lubricants to be used with the machinery during its first year of operations (oil and lubricants are needed every year to ensure the efficiency of the machine). Buby estimates that the useful life of the machine is 5 years with a RM5,200 residual value remaining at the end of that time period. Assume that the straight-line method of depreciation is used.

Machine B:

The recorded cost of this machine was RM84,800. Buby estimates that the useful life of the machine is 4 years with a RM5,300 residual value at the end of the useful life.

Required:

For Machine A:

- i) The journal entry to record its purchase on January 1, 2017.
- ii) The journal entry to record annual depreciation at December 31, 2017.

(4 marks)

For Machine B:

Calculate the amount of depreciation expense that Buby should record for Machine B each year of its useful life under the following method (*Round answers to nearest decimal*)

- iii) Straight-line method
- iv) Declining-balance method. The rate used is twice the straight-line rate.
- v) Units-of-activity method and estimated useful life of the machine is 182,910 units. Actual usage is as follows: 2017, 57,900 units; 2018, 49,350 units; 2019, 40,980 units; 2020, 34,680 units.

(6 marks)

Total 25 marks

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QUESTION 4

Part A

The following financial data are adapted from the annual reports of Royal Gold Sdn. Bhd.:

Royal Gold Sdn.Bhd.
Two-Year Selected Financial Data
For the years ended January 31st January 2017 & 2016

Operating Results	2017	2016
	RM'000	RM'000
Net Sales.....	13,848	13,673
Cost of goods sold and occupancy expenses excluding depreciation and amortization.....	9,704	8,599
Interest expense.....	109	75
Income from operations.....	338	1,445
Net Earnings (Net Loss).....	(8)	877
Cash Dividends.....	76	75
 Financial Position		
Merchandise Inventory.....	1,677	1,904
Total assets.....	7,591	7,012
Current Ratio.....	1.48 : 1	0.95 : 1
Average number of shares of share capital outstanding(in thousands)	860	879

Required:

(a) Compute and interpret the following ratios for 2017:-

- (i) Gross Profit margin
- (ii) Net Profit margin
- (iii) Earnings per share
- (iv) Inventory Turnover
- (v) Times-interest-earned-ratio
- (vi) Return on shareholder's equity

(12 marks)

(b) Compare and comment the current ratio of the company.

(3 marks)

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Part B

On January 1, 2017, Izatt Engineering Sdn. Bhd. issued RM2,000,000, 9%, 5-year bonds for RM1,922,780. The bonds were sold to yield an effective-interest rate of 10%. Interest is paid semiannually on June 30th and December 31st. The company uses the effective-interest method of amortization.

Required:

- (i) Prepare a bond discount amortization schedule which shows the amortization of discount for the first two interest payment dates. *(Please round to the nearest Ringgit Malaysia)* (6 marks)
- (ii) Prepare the journal entries that Izatt Engineering would make on January 1st, June 30th, and December 31st, 2017 related to the bond issue. (4 marks)

Total: 25 marks

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